British Columbia Securities Commission

Service Plan 2005-2008

Our Service Plan

This plan identifies the key opportunities and risks for the BCSC and our strategies for the next three years. Each division in the BCSC has its own operating plan. These plans detail how, as an organization, we will implement the strategies in this plan to pursue the opportunities and mitigate the risks. Copies of these operating plans are available by contacting the BCSC's public inquiries line, at 604 899-6854 or by emailing inquiries@bcsc.bc.ca

Copies of this Service Plan are available electronically on the BCSC website www.bcsc.bc.ca or by writing to:

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British Columbia Securities Commission

January 6, 2005

Honourable John Les
Minister of Small Business and Economic Development
Parliament Buildings
Victoria BC

Dear Minister:

The British Columbia Securities Commission is the independent provincial government agency responsible for the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering:

- a securities market that is fair and warrants public confidence, and
- a dynamic and competitive securities industry that provides investment opportunities and access to capital.

The BCSC has been working for several years on a new approach to regulation that we expect will strengthen investor protection while reducing the burden on market participants. This approach is based on streamlining and simplifying regulatory requirements and attacking threats to investors and market integrity with regulatory tools aimed at achieving effective outcomes.

The BCSC has worked closely with the provincial government to develop new securities legislation, which is a key element of our new approach to regulation. In 2004, the Legislature passed a new *Securities Act*, but the government deferred bringing it into force to allow market participants additional time to prepare. We will work with government to set a date in 2005 for implementation of the legislation.

In our Service Plan for 2005-2008, we have identified two key opportunities:

- Continued development of outcomes-based regulation
- Reforming national approach to securities regulation

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We also identified three key risks:

- Abusive junior market practices in British Columbia
- Inadequate disclosure from advisers to clients
- Insufficient information for investors about new and complex investment products

The plan describes our three-year strategies for pursuing the opportunities and managing the risks.

The BCSC's Service Plan for 2005-2008 was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the plan, including the selection of performance measures and targets.

The plan is consistent with government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions, and identified risks have been considered in preparing the plan.

I am accountable for ensuring the BCSC achieves the objectives identified in the plan and for measuring and reporting actual performance.

Yours truly,

Douglas M. Hyndman
Chair

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Organization overview

Our mandate

The British Columbia Securities Commission (BCSC) is the independent provincial government agency responsible for the administration of the *Securities Act*. The mission of the Commission is to protect and promote the public interest by regulating trading in securities:

- to ensure the securities market is fair and warrants public confidence; and
- to foster a dynamic and competitive securities industry that provides investment opportunities and access to capital.

The dual mission of the Commission requires that we protect investors from fraudulent, abusive, and unfair practices, and allow market participants to pursue their economic interests without an excessive burden of regulation. Effective regulation contributes to both aspects of the mission.

Governance

The provincial government appoints Commissioners. They are chosen for their skills and experience in business, law, capital markets, and regulation. Commissioners perform the following three functions:

- Serve as the board of directors and oversee management
- Establish regulatory policy and make legally binding rules (subject to the approval of the minister responsible for the *Securities Act*)
- Act as an administrative tribunal and make regulatory decisions under the legislation

Commissioners

The Commission has ten commissioners:

- Doug Hyndman, Chair and Chief Executive Officer
- Brent Aitken, Vice Chair
- Adrienne Salvail-Lopez, Vice Chair
- Robin Ford, Full Time Commissioner
- Neil Alexander
- Joan Brockman
- Marc Foreman
- John Graf
- Robert Milbourne
- Roy Wares

There are two standing committees of the board of directors:

- The **Audit Committee** reviews financial information provided to the government and the public, monitors the Commission's systems of control, and oversees its internal and external audit functions. Its members are:
    - John Graf, Chair
    - Neil Alexander
    - Joan Brockman
    - Adrienne Salvail-Lopez

- The **Human Resources Committee** ensures that we follow appropriate procedures for the selection, evaluation, compensation, and succession of Commissioners, executives, and senior management. The committee also ensures human resources and compensation policies and practices support the Service Plan. Its members are:
    - Robert Milbourne, Chair
    - Marc Foreman
    - Roy Wares

Executives

The Commission's executive officers are:

- Brenda Leong, Executive Director and Chief Operating Officer
- Sasha Angus, Director, Enforcement and Chief Litigation Counsel
- Martin Eady, Director, Corporate Finance
- Lang Evans, Director, Capital Markets Regulation
- Peter Grant, Chief Information Officer
- John Hinze, Chief Financial Officer

Enabling legislation

The Commission's enabling legislation is the *Securities Act*, RSBC 1996, c 418.

Our primary business

We accomplish our mission through five broad objectives:

- *We ensure that investors have access to the information they need to make informed investment decisions*
  An issuer raising capital from the public must disclose all material facts about its business to investors. A publicly-traded issuer must also keep investors informed through periodic financial statements and accompanying disclosure about its financial and business affairs and through prompt disclosure of material changes in its affairs.

- *We establish qualifications and standards of conduct for people registered to advise investors and to trade on their behalf*
  Firms that sell securities, advise investors, or manage portfolios must be registered, maintain minimum capital, and adhere to standards of conduct in trading, dealing with clients, and managing conflicts of interest. We regulate most dealer firms through self-regulatory organizations, which we oversee in cooperation with other Canadian securities regulators.
- *We provide rules of fair play for the markets*
  For example, to protect markets and investors from abusive practices, the *Securities Act* prohibits securities fraud, market manipulation, misrepresentation, and unfair practices.
- *We educate investors and the industry*
  We teach investors how to protect themselves before they invest their money. We help industry understand existing and proposed rules, so they can better comply with them. We use plain language to make the regulatory system accessible.
- *We protect investors and the integrity of the capital markets*
  We examine registered firms and monitor disclosure of publicly-traded issuers for compliance with the rules. We investigate suspected frauds and market abuses. When we find non-compliance or more serious misconduct, we can take action against those responsible.

Our business areas

The Commission has eight business areas:

- *Office of the Chair* – provides advice and support to the Commissioners in discharging their board and administrative tribunal functions and leads relationships with government, industry organizations, and other regulators.
- *Executive Director's Office* – oversees the regulatory, financial, and administrative operations of the Commission and is responsible for strategic planning, economic analysis, and other special projects.
- *Enforcement* – assesses possible breaches of the *Securities Act* by responding to public complaints, collecting intelligence, and investigating allegations. Conducts administrative hearings before the Commission, and represents the Commission before the Courts.
- *Capital Markets Regulation* – registers investment firms and their representatives, monitors the conduct and solvency of these firms to ensure compliance with the legislation, and audits the regulatory functions of self-regulatory organizations.

- *Corporate Finance* – monitors issuer offering and corporate disclosure materials and takes compliance actions against issuers and individuals who have failed to meet disclosure obligations.
- *Communications and Education* – educates market participants to help them comply with their regulatory obligations, provides investors with the knowledge and information they need to protect themselves and help them make informed investment decisions, and handles public communication and media relations.
- *Information Management Services* – provides information to the public through our website and telephone inquires and to Commission staff through information systems, knowledge sharing, and document management. Internally manages all computer hardware and software, provides project management expertise, performs legal research, oversees disaster recovery and business continuity planning, and coordinates process improvements and automation.
- *Finance, Human Resources, and Administration* – provides human resource, financial and facilities management.

Where we work

The BCSC is located in downtown Vancouver, in the city's financial district. Our public reception is located on the 12th floor, 701 West Georgia Street.

Our stakeholders

Our primary stakeholders are the investing public, companies that raise capital in the market, and those involved in buying, selling, and advising on securities in the province.

- *Investors* - both retail and institutional, who want to invest in fair and efficient capital markets
- *Issuers* - who rely on the capital markets to fund growth and diversification
- *The securities industry* - whose business is providing services to both users and suppliers of capital
- *The provincial government* - to which we are accountable for conducting our affairs and administering the *Securities Act*
- *The public* – which relies on the Commission to foster dynamic and competitive capital markets that contribute to the economic well being of British Columbia

How we deliver our services

The Commission delivers its services directly and indirectly through alliances with other regulatory agencies.

The Commission and the Alberta Securities Commission share the responsibility for supervising the operations of the TSX Venture Exchange. We have authorized two other exchanges, TSX and NASDAQ, to carry on business in British Columbia under exemption orders that rely on the oversight of their home regulators.

We rely on self-regulatory organizations to perform some key regulatory functions and we oversee these organizations in cooperation with regulators in other Canadian jurisdictions. These organizations are:

- *The Investment Dealers Association of Canada* (IDA) – The national securities industry association and self-regulatory organization for investment dealers, which registers investment firms and their representatives under delegated authority and regulates their conduct and capital adequacy.
- *The Mutual Fund Dealers Association of Canada* (MFDA) – The self-regulatory organization for mutual fund dealers, which regulates their conduct and capital adequacy.
- *Market Regulation Services, Inc.* (RS) – The independent market regulation services provider, which monitors trading activity for the Canadian equity markets and helps monitor listed companies' compliance with exchanges' timely disclosure and other requirements.

We continue to identify opportunities to exploit technology to enhance our own performance and improve access to information by industry and investors. We use our public website as one of our primary means to communicate with industry and the public. We use it both as an information and education tool and have recently developed *e-services* to facilitate on-line filings of some regulatory documents.

We also rely on national databases to collect and disseminate much of the information essential to our operations. These external systems are:

- System for Electronic Document Analysis and Retrieval (SEDAR)
- National Registration Database (NRD)
- System for Electronic Disclosure by Insiders (SEDI)
- National Cease Trade Order Database (NCTO)

The Canadian Depository for Securities operates SEDAR, NRD, and SEDI on behalf of the Canadian Securities Administrators (CSA). RS, on behalf of the CSA, operates the NCTO.

Strategic context

Our vision

Our vision is to make British Columbia the best place in North America to invest and raise capital. To do this, we must remain leaders in securities regulation by being innovative, cost effective, and tough but fair.

Our values

In managing the challenges of a rapidly changing marketplace and in pursuit of our mission we embrace the following values:

- *Excellence* – We commit to high standards and take pride in our work.
- *Service* – We provide efficient, timely, and responsive service.
- *Integrity* – We act fairly and ethically.
- *Accountability* – We take responsibility for getting things done.
- *Resourcefulness* – We are proactive, innovative, and cost effective.

Under our performance management system we focus on four core attributes for our staff:

- *Drive for results* – Focus on results and achievement of objectives. Hold high expectations. Push for high levels of accomplishment.
- *Effective communication* – State our expectations clearly, express our ideas well, and keep others informed. Ensure all our communications use plain language.
- *Problem solving* – Identify and address important problems. Anticipate potential problems and avert them where possible. Think ahead and plan.
- *Teamwork and cooperation* – Work with each other to maximize our talents and accomplish our goals.

Planning context and key strategic issues

We used a structured risk management approach to develop this plan. Through this process we identified opportunities for innovation and change, and significant risks that could potentially harm investors, the market, or the Commission. We excluded risks that we had previously identified and are currently managing.

We identified two key opportunities:

- Continued development of outcomes-based regulation
- Reforming national approach to securities regulation

We also identified three key risks:

- Abusive junior market practices in British Columbia
- Inadequate disclosure from advisers to clients
- Insufficient information for investors about new and complex investment products

To build a view of the most important opportunities and risks, we examined:

- Investment products and industry practices
- Events and trends
- Regulatory structure
- Regulatory reform initiatives

We also considered technology and organizational issues such as financial stability and resource management.

Commissioners and executives met to identify and assess risks, their likelihood, and the consequences or impact of not managing the risks. We then consulted with our external policy and legal advisory committees. We assessed our current capabilities, business processes, and supporting tools to manage the risks. We identified opportunities to modify current processes or develop new ones to better manage the risks.

Over the planning period we will continue to evaluate these and other risks to ensure that they are actively managed and remain relevant.

Opportunity 1: Continued development of outcomes-based regulation

For the past several years, the Commission has been developing a system of regulation that reduces costs and complexity, and provides better protection for investors. We developed a new *Securities Act*, rules, and guidance that move away from regulation based on detailed, prescriptive rules and toward a responsive, effective, and flexible, outcomes-based system.

In 2004, the legislature passed the new *Securities Act* and approved the proposed rules we developed to accompany the new Act. However, the government has deferred proclaiming it into force to allow market participants additional time to prepare. We will work with government to set an implementation date for the new Act.

This Service Plan assumes we will implement the legislation in the fall of 2005.

Until the new Act is brought into force, we will continue to implement outcomes-based regulation. The new Act is a key component of this regulatory approach, but we can pursue some aspects through administrative changes under the current legislation.

The following features characterize an outcomes-based regulatory system:

- *Set standards, not detailed requirements*
  Regulatory intervention is not always the right answer to market problems. We must resist mandating excessively detailed and prescriptive requirements that can undermine the goals of investor protection and market integrity, as market participants follow the letter and not the spirit of the rules.

  We must establish clear and fundamental standards of conduct for market participants and apply them using a range of regulatory tools such as guidance, education, compliance, and enforcement. This will encourage market participants to exercise judgment about what is right and wrong, rather than what they can or cannot do under the rules.

- *Design rules that fix the problem, not its symptoms*
  Once a decision has been made that a rule is necessary, it must be tested for:

  - effectiveness - the outcome of a rule should be clear and likely. When the link between a rule and a desired outcome is weak, the risk is that the rule will impose a regulatory burden without yielding corresponding benefits to industry or investors.
  - suitability across constituents - a rule should not systematically favour one type or size of market participant over another.

- flexibility - a rule should require firms to exercise judgment in their business practices and place responsibility on them for establishing adequate systems and controls and complying with internal standards of disclosure and conduct to meet their regulatory obligations.
- scope – the scope of a rule should be limited to what is necessary to achieve the desired outcome
- clarity – people who are affected by the rule should be able to find it easily, understand it, and apply it practically

- *Apply regulatory principles to compliance efforts*
  Outcomes-based regulation focuses compliance efforts on desired outcomes and behaviors rather than strict adherence to prescribed procedures or forms. Regulatory compliance programs should not generally be focused on market participants that have demonstrated strong and effective regulatory compliance systems and controls.

The success of applying this regulatory approach will lie in large part on the Commission's ability to administer the *Securities Act* in ways that will give market participants greater flexibility to meet their regulatory obligations and hold their senior management accountable for compliance. This will require staff to exercise more judgment in their day- to-day activities and the Commission to support these efforts through training and development.

We plan to take the following steps to make our compliance efforts more outcomes-focused:

- We will continue to evaluate our business processes to ensure that our actions support outcomes-based regulation. For example, we will assess how effective our issuer disclosure review program is at focusing issuers on material compliance problems and improving their overall compliance with disclosure standards.

- We will allocate resources across a range of tools to maximize our effectiveness at increasing compliance and reducing misconduct. For example, we will apply innovative surveillance techniques to detect patterns of non-compliance and use a combination of industry education, warnings, disciplinary actions, public communications, and investor education to protect investors from potential harm.

Opportunity 2: Reforming national approach to securities regulation

On September 30, 2004, the government signed a Memorandum of Understanding among most provinces and territories that proposes reform of the Canadian securities regulatory system through implementation of a passport system for regulatory approvals, and adoption of highly harmonized legislation. A passport system would permit a market participant to gain access to the market in all provinces by dealing with only one securities regulator and complying with the securities laws of one jurisdiction.

The government also adopted the new *Securities Act* and approved proposed rules that complement the Act. The new Act supports the government's objective to make securities regulation more effective and less burdensome, and to promote British Columbia as a more attractive place to invest.

We will work with government in its efforts to develop a passport system for securities regulation, and its goal to have provinces and territories agree to implement more harmonized, streamlined, and simplified securities laws.

We will also continue to work with other regulators, through the Canadian Securities Administrators (CSA) and the Joint Forum of Financial Market Regulators, on coordinated and cooperative regulatory activities. In recent years, the CSA has developed an excessive volume of detailed prescriptive rules that have significantly increased the burden of regulation, with questionable benefits for investor protection. We will continue to promote an outcomes-focused approach to regulation for the CSA.

Risk 1: Abusive junior market practices in British Columbia

Vancouver has been the centre for raising venture capital in the public markets for many decades. We want our market to continue to be a world leader for financing legitimate start-up issuers.

Securities regulators and exchanges have made great progress in cleaning up the Canadian venture capital markets. Yet, a small number of individuals in British Columbia have continued carrying out abusive stock promotions through markets outside Canada. They move from market to market to avoid regulatory scrutiny or because they have been banned from particular markets.

Any misconduct originating from British Columbia threatens our junior markets and the reputation of British Columbia as a good place to invest and raise capital. So we must pursue misconduct based here regardless of what market it occurs on or where the victims live.

The US Over-The-Counter Bulletin Board (OTCBB) has become the market of choice for much of this abusive activity. Therefore, we need to strengthen detection of OTCBB activity connected to British Columbia and look for opportunities to break the chain of abusive promotion of junior companies.

Risk 2: Inadequate disclosure from advisers to clients

Investment firms and their representatives are responsible for recommending investments that are suitable for their clients. They also have to deal fairly with their clients. Together, these requirements form an obligation for representatives to disclose and explain important information relating to a proposed investment, including:

- fees (both direct and indirect)
- conflicts between the firm's or representative's own interests and the interests of the client
- risks, including how much the client could lose (for example, just the profits, the whole investment, or more than the investment)

We will work directly and with the self-regulatory organizations to require investment firms to improve transparency in these key areas so investors are better able to evaluate advice and recommendations.

Risk 3: Insufficient information for investors about new and complex investment products

Often, in response to investor demands for better returns, investment firms and issuers continually market new and often complex investment products. Issuers and investment representatives are responsible for ensuring that investors and clients have access to sufficient information about investment products: issuers through their offering and continuous disclosure materials, and representatives through their client relationships.

Anecdotal evidence indicates that many retail investors do not fully understand these investments, either because the issuers do not adequately describe their key risks and attributes or because the investment representatives do not fully understand the investment products they are selling and whether they are suitable for their clients. We can help investors avoid unsuitable investments by promoting better disclosure and greater knowledge about new and complex investment products.

The representative's responsibility to fully explain the attributes of an investment product, including its risks, is particularly important for a new or complex investment product that is unfamiliar to investors. Because better informed

investors are less likely to seek out or accept unsuitable investments, we will use our compliance tools to assess whether adequate information is reaching investors, and our education programs to help investors get the information they need to help them make more informed investment decisions.

Goals, key strategies, and performance measures

We have identified four goals that support our mission:

1. Follow a lean approach to policymaking
2. Promote a culture of compliance
3. Act decisively against misconduct
4. Educate investors and industry

This section describes each goal and outlines the related strategies that we plan to use to address the risks identified in this Service Plan. As this is a three-year plan, some of these strategies are already underway and others will take two or more years to complete.

The Commission has been working for the last few years on measuring our effectiveness as a regulator. Our primary aim is to assess whether we are providing better protection for investors while reducing the burden on market participants.

Internally, we have adopted performance measures to hold ourselves accountable for meeting service level standards and other strategic objectives. In our Service Plan for 2005-2008 we have set out a few measures for each of our four goals to help us assess the overall effectiveness of our regulatory efforts.

For each measure we develop, we will:

- establish a baseline
- monitor trends against the baseline and targets we set
- if possible, compare (or benchmark) our results against those for other jurisdictions.

We are in the early stages of developing appropriate measures of our regulatory effectiveness. We will begin with measures for which we already have useful data or can start to develop baselines. We will need to gain experience with these measures – to collect the right data and to accurately report on meeting our goals.

Goal 1: Follow a lean approach to policymaking

For the past several years, the Commission has committed itself to a streamlined and simplified system of regulation based on the guiding principles of outcomes-based regulation. We describe our policymaking approach as "lean" because we strive to avoid imposing complex, voluminous rules and policies. We aim to limit the scope and content of new rules to what is clearly needed to achieve specific outcomes efficiently. We aim to limit our policy guidance to what is necessary for market participants to interpret and apply the rules and not to use policies to impose mandatory requirements or to tell market participants how to comply with the rules. This approach is consistent with the government's regulatory reform policy.

Our approach to regulation begins by identifying problems and risks, assessing their impact on or threat to investors and markets, and determining the most appropriate response. We consider all regulatory tools – education, guidance, rulemaking, compliance reviews, and enforcement actions – before deciding what mix of responses is the best answer to the problem.

We see rulemaking as just one regulatory tool we can use to protect investors and foster fair and competitive markets. It is an important and powerful tool, but one that can have adverse effects, such as limiting competition, slowing innovation, increasing costs, encouraging a loophole mentality, or creating other unanticipated or undesired responses.

If rules or rule amendments are part of the response to a problem, we will apply these guiding principles:

- Respond quickly to deal with the problem while it is current
- Develop outcomes-based rules written in plain language
- Consult with stakeholders
- Conduct cost-benefit or regulatory impact analysis to make better decisions
- Consider the interface with other jurisdictions' requirements
- Review the effectiveness of the rule once implemented

Since investors ultimately bear the cost of regulation, we must keep rules to a minimum and maintain a streamlined and simplified system of regulation that improves investor protection without imposing disproportionate costs.

Key strategies for Goal 1

Strategy 1.1 – Work with government to implement new securities legislation in British Columbia

In the last three years, the Commission has worked with government and the securities industry to develop and pass new, outcomes-based securities legislation written in plain language. We believe all of our stakeholders will benefit from bringing the new *Securities Act* into force.

We will work with government to set an implementation date for the new Act. Proclaiming the legislation in the fall of 2005 will provide industry with enough time to prepare for the transition to the new legislation.

Strategy 1.2 – Work with government and other regulators to improve securities regulation

We will support government and other Canadian securities regulators in their efforts to make the Canadian securities regulatory system more efficient and effective.

We will develop guidelines for staff that will support our goal of a lean approach to policymaking. We will also advocate lean policymaking processes and outcomes-based rules when participating in national policy discussions.

The provincial ministers' passport initiative provides an excellent opportunity to build broad support for outcomes-based reform. We will work with government to achieve its goal to implement more harmonized, streamlined, and simplified securities laws that will benefit all investors in Canada.

Strategy 1.3 – Ensure our guidance processes are flexible and effective

We provide guidance to market participants to help them interpret and comply with their regulatory obligations.

In providing guidance, we help market participants understand the standards they are obliged to meet, rather than prescribing the steps they should follow. We will resist providing industry with detailed and voluminous guidance that would obscure basic standards and undermine the effectiveness and flexibility of our outcomes-based rules.

Our guidance must be:

- focused on outcomes, not on prescription
- written in plain language
- easily accessible
- up-to-date and consistent

Most important, our body of guidance must make clear that market participants are ultimately accountable for the choices and decisions they make about how they will comply with their regulatory obligations.

Performance measures for Goal 1

The Commission is committed to developing a system of regulation that is flexible, outcomes-based, and cost effective. To do this we will apply a range of regulatory tools to deal with emerging risks to the market and investors. Policy-making is one of the tools. To ensure that any new rule or rule revision is cost effective and has a scope limited to the desired outcome, we have established six lean policymaking principles to guide us in developing new rules or making rule revisions (see page 20). We are using two performance measures to assess progress in applying our lean approach to policymaking.

PERFORMANCE MEASURES	TARGETS			
	04/05 Actuals /Baseline	05/06 Target	06/07 Target	07/08 Target
1.1 Percentage of lean policymaking principles followed for the last five rules implemented	70%[1]	Maintain or Improve on 04/05	Improve on 05/06	Improve on 06/07
1.2. Regulatory count	22,000	11,000	11,000	11,000

(1) 18 principles are scored on a five-point scale. The baseline may change as the criteria are refined in 05/06.

Measure 1.1 - Percentage of lean policymaking principles followed

It is important that we monitor whether we are applying our lean policymaking principles when we are developing rules. Because the number of new rules adopted in a single year might be small, we will score how rigorously the principles were applied in the last five rules adopted and calculate a moving average. Our target is to apply these principles increasingly in the rules we adopt over time.

To compare our performance against that of the CSA, we will score the last five national rules to compare them to the last five local rules.

Measure 1.2 – Regulatory count

Under the Commission's outcomes-based regulatory approach, we must consider a range of regulatory tools to fix an identified problem. Many problems can be addressed without adding or changing rules or policies but, even when

we conclude that a new rule or policy is necessary, we can limit the number of requirements by rigorously applying the lean policymaking principles.

In keeping with the government's ongoing commitment to reducing regulatory burden, we will continue to count our regulatory requirements. When the new *Securities Act* comes into force in 2005, the baseline for securities legislation requirements will drop by about 11,000.

Our overall objective is to minimize regulatory burden and to only impose new rules when necessary. We realize that this may result in short-term increases in regulatory requirements; however, as we review and update existing rules, we will look for opportunities to offset these requirements.

In appropriate cases, we will compare how our local rules and policies fare under our lean policymaking principles in measure 1.1 and our lower regulatory count objective in measure 1.2 against similar rules or policies adopted in other jurisdictions.

Goal 2: Promote a culture of compliance

Effective regulation depends on market participants to put effective systems and controls in place to comply with both the spirit and the letter of securities laws. Investors rely on investment firms to monitor their compliance responsibilities, and on issuers to provide accurate, complete, and timely public disclosure.

Issuers and investment firms should have clear and rigorous systems and controls in place and modify them as necessary to mitigate or manage emerging risks. Regulatory intervention should be necessary only occasionally to correct non-compliance and to maintain public confidence in the integrity of the market. An effective culture of compliance would align the private interests of market participants with the public interest in a fair, efficient, and reputable securities market.

We work to both promote compliance and to enforce securities laws. We take enforcement action to halt misconduct through the various strategies outlined in Goal 3 *Act decisively against misconduct*. Compliance actions are targeted at monitoring and changing behaviour, and can be used to uncover potential misconduct.

The compliance actions we rely on today include:

- Reviewing for deficiencies in issuer disclosure
- Auditing sales practices of investment firms, directly and through self-regulatory organizations
- Examining financial stability of investment firms, directly and through self-regulatory organizations
- Applying conditions on registration
- Monitoring timely filing of documents
- Issuing reports on compliance concerns
- Issuing warning letters
- Educating market participants about current and proposed rules and about basic standards of conduct

By promoting a culture of compliance, we support our mission of protecting investors and fostering fair and competitive markets.

Key strategies for Goal 2

Strategy 2.1 – Hold firms accountable through outcomes-based compliance processes

Issuers, investment firms, and senior management and directors are responsible for ensuring compliance with their regulatory obligations. Senior management and directors are responsible for having appropriate systems and controls that fit the nature, scale, and complexity of their business.

We will direct our compliance efforts toward effecting changes in attitudes and behaviors. We will use a variety of regulatory tools to:

- monitor and detect non-compliance
- deal with compliance deficiencies

By reorienting our key business processes we hope to focus issuers and investment firms on material compliance problems. We will apply this standard both to issuers and investment firms.

Issuers

We will use our compliance processes to help issuers identify areas where they can improve internal controls and other compliance mechanisms. By forcing better disclosure of material information, we may be able to help expose some potential business and financial threats to investors at an earlier stage. Serious compliance breaches may be referred to the enforcement division, which may take action not only against the issuer, but also against senior management and directors.

Investment firms

An investment firm's compliance responsibilities include establishing and monitoring standards of conduct and supervising its representatives' activities. We will gather information through examinations and other means to assess the quality of disclosure to clients. As discussed in Risk 2, inadequate disclosure of fees, conflicts, and risks can adversely affect investors' decisions.

We will hold firms accountable to implement robust and transparent procedures to manage conflicts and fee disclosure. Where an investment firm's practices and internal controls fall below acceptable standards, we may take enforcement action to hold the firm and its senior management and directors accountable.

Strategy 2.2 Apply our portfolio of compliance processes to the most important problems

We use a range of compliance processes today. We will find better ways of using our existing processes to maximize the impact on compliance for the time we invest in the process. We will develop new processes to encourage the outcomes we want to see.

To effectively manage emerging risks, we will apply a mix of tools and continually assess the effectiveness of our current business processes.

Strategy 2.3 – Review new and complex investment products, and related due diligence and sales practices

Through research and monitoring, we will track new and complex investment products being sold to retail investors in British Columbia. We will identify the types of investments investors are not likely to understand easily, or for which risks are not well understood.

We will review offering and continuous disclosure materials to assess whether issuers are providing clear and adequate information about their securities. With better disclosure, investors will be able to make more appropriate investment decisions.

We will examine investment firms, directly and through self-regulatory organizations, to confirm they have proper due diligence and sales practices in place to evaluate new investment products and ensure they are suitable for client portfolios. We will also hold investment firms accountable for their representatives' understanding of the new and complex investment products they sell.

Performance measures for Goal 2

Promoting a culture of compliance in the securities industry is a key goal to protect investors and create fair and efficient markets. We use a variety of tools to improve compliance, like examinations of investment firms and reviews of issuer disclosure. We also use industry education, as a primary tool to help market participants understand and comply with regulatory requirements. We are using four measures to assess whether issuers and firms are improving their compliance systems and controls.

PERFORMANCE MEASURES	TARGETS			
	04/05 Actuals /Baseline	**05/06 Target**	**06/07 Target**	**07/08 Target**
2.1 Percentage of reviewed issuers that improve their continuous disclosure[1]	No data for 2004/2005	Set Baseline	Improve on 05/06	Improve on 06/07
2.2 Percentage of BC-based reporting issuers on defaulting issuers list[1]	TBD[2]	Improve on 04/05	Improve on 05/06	Improve on 06/07
2.3 Average number of deficiencies per examination in Capital Markets Regulation	6.8 /32 categories	< 6.8	Improve on 05/06	Improve on 06/07
2.4 Percentage of BC-based investment dealers with low and medium-low risk scores	55%	≥55%	≥60%	≥60%

(1) The systems needed to create auditable statistics for this measure are not yet in place.
(2) The baseline figure will be available in time for the 2005 Annual Report.

Measure 2.1 – Continuous disclosure improvement

Our Corporate Finance division reviews issuer disclosure for material deficiencies. Under our risk-based review system, some issuers are more likely to be selected for review. In our reviews over the last year, we identified some issuers with inadequate disclosure records. We will assess a statistically significant sample of these issuers at the end of each year to measure our progress at improving their disclosure practices.

We will develop a methodology that tests for two types of improvement: a measure for year-over-year improvement that demonstrates whether an issuer took action in response to our compliance efforts, and a measure for whether that

issuer's new disclosure materials meet the basic standard for compliant disclosure.

We will limit the assessment to the specific disclosure documents that are of particular concern for each issuer, like interim and annual financial statements, management discussion & analysis, and disclosure of mineral exploration results. We will obtain an independent assessment of the level of improvement using a fixed methodology across the sample of issuers. We recognize that this measure will always lag by one year because we will have to wait for the next filing cycle to evaluate improvements to the prior year's disclosure: by May 2005, we will report on disclosure improvements resulting from reviews carried out between April 2003 and March 2004. This measure is not meant to gauge compliance across all issuers – it focuses only on the issuers we chose to review through our risk-based selection criteria and found to have less than adequate disclosure.

We are not able to benchmark this measure against the disclosure compliance programs of other jurisdictions because they do not collect similar data. Although we have worked with other jurisdictions to compare our disclosure review programs, the analysis focuses on the processes for issuer selection and review, not the outcomes of the programs.

Measure 2.2 – Compliance with filing requirements

Reporting issuers are required to make filings under the *Securities Act* on time, in the proper form, and with the appropriate fee. One measure of a compliant industry is that issuers consistently meet these filing requirements. We routinely put issuers that do not file on time or pay fees on a list of defaulting issuers. We also put an issuer on the list if our preliminary review shows that a filing is clearly not in the proper form.

We will track the number of BC-based reporting issuers on this list over the course of each year, and the reasons they are on the list: late filing, inadequate filing, or failure to pay fees. We would expect the percentage of BC-based issuers that appear on the list at some point over the year to decrease over time.

In analyzing this data, we might find that, despite a general improvement in the compliance culture, the number of issuers in default increases in a particular year for one of two reasons. First, if we raise the bar for appropriate disclosure, or shorten filing cycles, this could create transitional increases in non-compliance. Second, a general downturn in the economy, the market, or a particular sector (like mineral exploration) could put a large number of issuers in financial difficulty and increase the risk that they will not meet their filing requirements. From our past experience we know that many of these issuers will ultimately go

out of business. We should be able to account for factors such as these when interpreting the results.

With the data we have available, we will only be able to see how BC-based issuers measure up to other BC reporting issuers on two aspects of our measure: late filings or failure to pay fees. This is because we currently only track non-BC-based issuers if they file late or fail to pay fees. We do not keep track if they provide inadequate filings.

Measure 2.3 – Average number of deficiencies per investment firm exam

Our Capital Markets Regulation division reviews investment firms that are not members of a self-regulatory organization for compliance with their regulatory obligations. Using risk-based assessment criteria, we examine those firms that pose the highest risk and report results using 32 categories of deficiencies.

In 2005/2006, we will report the deficiencies per examination based on the 32 categories we use today, and the deficiencies per examination based on the year-end categories. As new categories of deficiencies are added or existing categories combined or eliminated, it will be necessary to reset the measure each year. Our target will be to see the overall number of deficiencies reported across categories decline over the years.

This measure has two limitations. First, because we do risk-based examinations, we place a priority on reviewing firms with compliance concerns or which are higher risk. This would likely result in the average number of deficiencies by examination being higher than it would be if we reviewed a cross-section of all firms. Second, we may also decide in a particular year to audit all firms for specific compliance problems, which will raise reported deficiencies in defined areas.

We will not be able to benchmark this measure against other Commissions. While they also track deficiencies, no other jurisdiction follows the same system for summarizing its examination results.

Measure 2.4 – Financial risk of BC-based investment dealers

The IDA has developed risk ratings regarding financial compliance for its member firms. We will report on what percentage of BC-based IDA members fall in the low and medium-low risk segments of the IDA model. While we expect there will always be some firms that remain in the high and medium-high risk categories, we expect the percentage of lower risk firms to grow over time as a result of focusing compliance efforts on higher-risk firms.

We will benchmark this measure against the national average. We fully expect that more BC-based investment dealers will be higher risk than the national average because of their size, underwriting practices in the speculative junior markets, and their clearing practices. Our intention is to narrow the gap between the national average and the BC average.

Goal 3: Act decisively against misconduct

Decisive action involves investigating complaints, and our own leads, to identify market conduct requiring a compliance or enforcement response. It means responding to inappropriate activities in a timely way through compliance actions and to illegal activities forcibly through enforcement actions. This goal supports our mission to protect investors and ensure securities markets are fair and competitive.

We work to promote compliance and to enforce securities laws. We promote compliance through the various strategies outlined in Goal 2 *Promote a culture of compliance*. We use enforcement to deter misconduct and to remove from the market those who pose a threat to investors or market integrity.

Enforcement actions in the form of proceedings before the Commission and the Courts are powerful tools to deter misconduct and must be used judiciously. To make the best use of our resources, we also consider other regulatory actions including:

- Publishing the names of defaulting issuers
- Issuing cease trade orders against issuers, management, and insiders for filing deficiencies
- Issuing warning letters
- Placing conditions on registrations
- Referring cases for criminal prosecution
- Partnering with other regulatory organizations, such as RS, the IDA, the MFDA, TSX-Venture, and the RCMP's Integrated Market Enforcement Team

Our litigation team uses a risk-based approach to select the cases it will pursue. Cases come from internal and external sources. They might come from our Investigations and Intelligence teams or our Capital Markets Regulation or Corporate Finance divisions. We also deal with cases referred to us by RS, the IDA, and the MFDA.

We assess cases using the following criteria:

- Severity of the misconduct
- Deterrence value of a successful enforcement action
- Strength of evidence
- Impact on BC investors
- Relationship to the Service Plan

Assessing cases properly ensures we are focusing our efforts most effectively.

Key strategies for Goal 3

Strategy 3.1 – Disrupt abusive junior market practices in British Columbia

We will develop strategies to deal with abusive stock promotions involving OTCBB companies with connections to British Columbia, even though investors who may be most at risk reside outside the province.

With a better understanding of this activity we will identify cross-border opportunities to break the chain of expertise that allows promoters to maintain abusive activity here.

While we look at possible actions that will create broad disincentives for abusive stock promotion from British Columbia, we will continue to take on individual cases of industry malfeasance involving OTCBB issuers and improve internal and cross-border surveillance of OTCBB issuers. We will strengthen cross-divisional surveillance efforts and information sharing to maximize opportunities to act with the most complete information available. We will also continue sharing intelligence with the SEC, the NASD surveillance arm, other regulators, and police agencies.

Strategy 3.2 Evaluate the current portfolio and efficiency of enforcement processes

We use a range of enforcement tools today. We will find ways of using these existing tools better and develop new ones to deal more effectively with significant cases of misconduct.

For enforcement actions that lead to litigation, we must manage our portfolio of cases carefully. The number of cases in our litigation department currently exceeds our resource capabilities. Because it is difficult to predict how long a case will take, managing resources effectively is a constant challenge. We have already strengthened our enforcement capabilities. But we need to explore other options to help manage our enforcement resources and backlog of cases most effectively, such as adopting a project management methodology and enhancing technological capabilities.

Performance measures for Goal 3

Acting decisively against misconduct involves detecting the misconduct, choosing the right cases to investigate, and applying a variety of tools to deal with the misconduct. While we can count the number of new enforcement cases opened or settlements reached in a year, these measures do not adequately determine whether we are making progress towards achieving our goal to *Act decisively against misconduct*. Focusing on outcomes-based measures will be more valuable to measure success in achieving this goal. We will use two measures to assess our effectiveness: one for early detection of misconduct and another for allocating enforcement resources.

PERFORMANCE MEASURES	TARGETS			
	04/05 Actuals /Baseline	**05/06 Target**	**06/07 Target**	**07/08 Target**
3.1 Percentage of cases from external complaints that could have been detected earlier through internal compliance monitoring	7%	<10%[1]	<10%	<10%
3.2 Enforcement time spent on productive action	No data for 2004/2005	Establish Baseline	Improve on 05/06	Improve on 06/07

(1) Percentage is based on a small number (5 of 68 in baseline).

Measure 3.1 – Early detection of misconduct

Through our early detection efforts and investor education, we will be better able to detect misconduct earlier and take appropriate action to minimize the harm to investors. We detect misconduct through various channels — complaints, referrals, and our own compliance monitoring. Of the cases initiated in our assessment branch by complaints, we will assess the percentage that could have been detected earlier as a result of internal compliance monitoring. Over the coming year, we will evaluate our options for measuring early detection.

We are not aware of any other jurisdiction that has established a similar measure.

Measure 3.2 – Effective allocation of enforcement resources

We will monitor how effective we are at allocating resources to cases that warrant enforcement action. We will measure staff time in our intelligence and assessment and investigations branches spent on cases where either a notice of hearing is issued or other regulatory action is taken. We will state this measure as

a percentage of total staff time spent on cases. Improving this percentage over time would indicate that we are being effective at allocating resources to the right cases.

It is important to note that this measure will be incomplete when compiled for our annual report: it will not be possible to classify time spent on a case until it concludes, and many cases take more than one year to conclude.

Goal 4: Educate investors and industry

Education is a fundamental strategy in our approach to securities regulation. Through our investor and industry education programs, we:

- equip investors with the knowledge and skills necessary to help them protect their financial interests.
- inform market participants about the rules to help them comply with their regulatory obligations.

Investor Education

We have developed a number of programs and other education tools to reach our target audiences with key self-protection messages. Our core adult investor education program is our *Investigate Before You Invest* seminar. We also developed a program to address what we recognized as "affinity fraud"- which often involves a person gaining the trust of others by joining a church group with a view to defrauding its members.

Today's youth are tomorrow's investors. In fall 2004, we launched a comprehensive teacher and student resource for the Finances component of a new, mandatory grade 10 course called Planning 10. In the Finances section of the course, students learn the financial life skills they'll need as they begin to work towards their education, career, and life goals.

Our new resource covers budgeting, savings, credit and debt, banking services, insurance, investing, taxes, and financial planning.

By providing this resource, we will help young people acquire the knowledge, skills, and confidence they'll need to begin planning for their post-high school education and career, and to navigate through the financial realities of adulthood.

Industry Education

Our industry education programs are designed to help issuers and their directors and officers, and investment firms and their representatives, understand and comply with securities law requirements. It is also an effective compliance tool to communicate expected standards of conduct.

To prepare industry for the implementation of the new *Securities Act*, we developed a comprehensive industry education program for issuers, investment firms and their representatives across British Columbia.

We recently redesigned our website (www.bcsc.bc.ca) to improve industry's and investors' access to information. We view it as a primary communication channel to deliver important information to both industry and investors. With more and more people accessing the Internet, our website provides greater opportunities to promote education.

Education directly supports our mission: it contributes to investor protection by helping investors avoid unsuitable or illegal investments; it helps promote fair and efficient capital markets by focusing market participants on current compliance issues.

Key strategies for Goal 4

Strategy 4.1 – Expand our core investor education theme and messages

To date, our investor education seminar programs have focused primarily on the theme of *Investigate Before You Invest* and on the message "know yourself, know your adviser, know your investment."

While these will continue to be key concepts, we will customize these programs to ensure that they are practical and effective for our various target audiences.

Strategy 4.2 – Educate investors about new and complex investment products

As we identify new and complex investments, we will assess their potential risks to investors. We will work with the self-regulatory organizations and investment firms to find opportunities for targeted investor education initiatives.

We will disseminate relevant and timely information about new investment products to investors, including information about the risks of the investments.

Strategy 4.3 – Continue to educate industry about securities legislation

We will use industry education to help issuers and their directors and officers and investment firms and their representatives understand both current and proposed regulatory obligations. We developed a well-received industry education program to introduce our new legislation. We will continue to improve the way we deliver these programs.

Education will also be used to deal with problems identified through our compliance processes. We will choose appropriate channels to reach our audiences given the specific messages we want to deliver.

Performance measures for Goal 4

In educating both investors and industry, the Commission will want to know how effective its programs are in three important areas: reach, retention, and efficiency.

We will begin by developing measures for how well investors who attend our seminars retain the messages we deliver. Seminars, while only one of the channels we use to deliver investor education, provide us with identifiable members of the public to survey. Refining our messages and raising retention levels through the information we gather from seminars will help us develop messages for distribution through other channels as well.

We will not have similar information from other jurisdictions for benchmarking purposes.

In educating industry, we will succeed if we can achieve a culture of compliance across market participants, which is already one of our goals. However, we are also interested in assessing how effective our industry education programs are as such and we are working on some longer-term measures to demonstrate our success in this area.

PERFORMANCE MEASURES	TARGETS			
	04/05 Actuals /Baseline	**05/06 Target**	**06/07 Target**	**07/08 Target**
4.1 Investor retention of key messages by follow-up surveys	No data for 2004/2005	Establish Baseline	Improve on 05/06	Improve on 06/07

Measure 4.1 - Retention of key messages

Education programs are only successful if we achieve our learning objectives. Our objective is to develop programs in ways that will maximize the opportunities for people to learn and recall important information that will help them make better investment decisions. In the past, we measured attendees' satisfaction with our seminars. Going forward, we will measure whether participants retain key information. We will test this through follow-up surveys. This information will demonstrate how successfully we deliver our messages and help us improve learning and retention.

Alignment with Government's Strategic Plan

The BCSC's vision, to make British Columbia the best place in North America to invest and raise capital, directly supports goal 1 in the government's strategic plan: *"a strong and vibrant provincial economy."*

To achieve our vision we must do well at both aspects of our mission - protect investors and foster a dynamic securities industry. We have identified four goals in this Service Plan to support our mission.

Innovation and economic growth

Our Service Plan supports two of the government's strategies to improve the province's economy through innovation and economic growth:

- *Market British Columbia's competitive advantages and opportunities as an investment location, tourism destination and trading partner* – Today, BC is recognized as a leading centre for raising venture capital in the public markets. Though our outcomes-based approach to regulation we are focusing on regulation that reduces costs and complexities and provides better protection for investors. This approach benefits investors and companies operating in BC, particularly junior companies that raise capital in BC's venture capital markets.

  If we are successful in achieving our mission to protect investors and foster dynamic markets, that will give investors confidence that BC is a good place to invest, and businesses confidence that BC is a good place to raise capital.

- *Increase mining exploration and development activity* – BC is the centre of excellence for mining in Canada. The Commission brings technical, legal, and accounting expertise to the regulation of disclosure by mineral exploration companies. We support this industry by providing guidance to mining companies to help them understand and comply with their disclosure obligations. We work directly with companies in the mining industry and with industry groups such as the Mining Technical Advisory and Monitoring Committee, which is a forum for continuing communication between the mining industry and securities regulators.

Management of Government

We contribute to four of the strategies to improve the overall management of government in the province:

- *Continue to streamline government's legislation and regulations* – We developed new securities legislation that was passed by the legislature in

May 2004. When the new *Securities Act* is brought into force it will reduce the number of securities regulatory requirements by more than 50%. We will continue to streamline regulation by applying our lean policymaking principles to the development of any new rules and amendments to current rules.

- *Promote new and more effective ways to deliver services and infrastructure through alternative service delivery and partnership arrangements* – We have in the past joined with other provincial securities regulators to develop national systems to make it easier for market participants to access the securities markets and meet their regulatory requirements. The System for Electronic Data Analysis and Retrieval (SEDAR) simplifies the filing of disclosure documents by public companies and is considered the best national public company database in the world. The National Registration Database (NRD) has made it easier for investment firms and their representatives to get licensed to do business. Similarly SEDI, the System for Electronic Disclosure by Insiders, replaced a paper-based system with one that allows insiders to file their insider reports electronically.

  Locally we developed and maintain a website (http://www.bcsc.bc.ca/planning10/) to support the Ministry of Education's grade 10 financial planning curriculum, which is being used by teachers and students from all parts of our province.

  We will continue to source out new partnerships and business opportunities to deliver cost effective services to the industry and investors.

- *Expand public access to government through e-government initiatives* – We have led all provincial securities regulators in taking advantage of the Internet. We were the first to launch a public website and use it as one of our primary channels for delivering industry and investor information to the public. We recently introduced our web-based *e-services* facility to allow our stakeholders to file certain regulatory documents electronically through our website. The function received the award for best legal product from the Canadian e-Content Institute in 2004.

- *Reform the province's Crown corporations to focus on efficient and effective service delivery* – The Commission is a self-funding organization that has, over the past several years, focused on delivering value to our stakeholders. We continue to promote a service-oriented culture, and recently introduced new performance measures to hold staff accountable for meeting target service standards. We also undertake stakeholder satisfaction surveys to measure our effectiveness in providing services to market participants.

Summary financial outlook

Overview

We aim to operate the BCSC at a breakeven level. This is hard because most of our costs are fixed, but our revenues fluctuate in proportion to market activity.

We expect to achieve the breakeven point in fiscal 2005 and in fiscal 2006 without filing fee increases. In part, this is because recent and proposed reductions in filing cycles mean some market participants will pay annual disclosure documents filing fees twice in fiscal 2006 and 2007. Breaking even in fiscal 2007 and 2008 may require filing fee increases or cost reductions.

The following table summarizes our actual and expected results of operations:

Summarized Statements of Operations

(000,000's)	**2004** Actual	**2005** Forecast	**2006** Budget	**2007** Projection	**2008** Projection
Revenue					
Filing fees					
Prospectus and other distributions	11.6	13.4	12.4	12.8	13.2
Registration	4.9	7.8	7.9	8.1	8.3
Financial Filings	4.5	4.9	5.2	5.4	5.5
Other fees	0.6	0.5	0.4	0.3	0.3
	21.6	26.6	25.9	26.6	27.3
Other revenue					
Enforcement cost recoveries	0.1	0.3	0.2	0.2	0.2
Investment income	0.7	0.5	0.5	0.8	1.0
Total Revenue	22.4	27.4	26.6	27.6	28.4
Expenses					
Salaries and benefits	19.5	19.8	19.4	20.0	20.6
Other operating expenses	7.7	7.0	7.3	7.6	7.8
Total Expenses	27.2	26.8	26.7	27.6	28.4
General (Deficit) / Surplus for the year	**(4.8)**	**0.6**	**(0.1)**	**-**	**0.1**
Education Revenues					
Investment income	0.1	0.1	0.1	0.1	0.1
Penalties and designated settlement revenue	0.4	0.8	0.3	0.3	0.3
	0.5	0.9	0.4	0.4	0.4
Education Fund disbursements	0.8	2.2	1.2	0.4	0.4
Education Fund Deficit for the year	**(0.3)**	**(1.3)**	**(0.8)**	**-**	**-**
Consolidated (Deficit) / Surplus for the year	**(5.1)**	**(0.7)**	**(0.9)**	**-**	**0.1**
Capital expenditures	*0.8*	*0.4*	*0.4*	*0.4*	*0.4*
Average FTEs	*204*	*195*	*190*	*190*	*190*

Operating expenses

We are committed to managing our expenses so they do not exceed our revenue expectations over the business cycle. We do this by:

- Preparing an annual budget approved by senior management
- Reporting actual versus budget experience to management every month
- Requiring senior management approval of significant expenses
- Continually improving the efficiency of our processes

We expect operating expenses to grow modestly over the planning period because cost increases will be partly offset by reductions in expenditures directly related to the completion of the New Legislation project. Non-project expense growth is driven primarily by merit-based annual general salary increases, which we expect to average 3.1% per year, and inflation, which the government has forecast will average 2.1% per year.

Operating Expense Growth

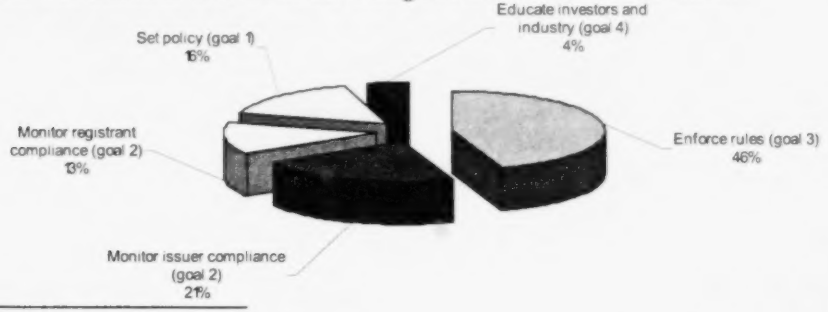
(000,000's)	2004 Actual	2005 Forecast	2006 Budget	2007 Projection	2008 Projection
Operating Expenses					
Expenses, excluding education disbursements	27.2	26.8	26.7	27.6	28.4
Operating expense growth	-2%	-1%	-1%	3%	3%

Our most significant operating expenses are salaries and benefits, professional services, rent, and depreciation.

Salaries and benefits

Staffing costs account for almost three quarters of our operating expenses. We compete for professional staff with law firms, accounting firms, the securities industry, and other regulators, so our salaries must be competitive with those groups. Our compensation package includes a performance-based incentive program available to all staff.

We spend our salaries and benefits budget on these core activities[1]:


Educate investors and industry (goal 4) 4%
Set policy (goal 1) 6%
Monitor registrant compliance (goal 2) 13%
Enforce rules (goal 3) 46%
Monitor issuer compliance (goal 2) 21%

[1] Overhead costs allocated proportionately.

Planned results reflect the following significant staffing assumptions:

- The equivalent of 195 full-time staff during fiscal 2005
- 3.1% per year average general increase in salaries and benefits costs
- An average of five fewer full-time staff (FTEs) by the end of fiscal 2006 (vs. fiscal 2005). We have already accomplished the majority of these reductions through process efficiency gains.
- Average staff size of 190 FTEs over the remainder of the planning period.

Professional services

Professional service costs relate primarily to:

- Legal services to defend our actions when appealed to higher courts
- Commissions paid to the IDA for registration services delegated to them
- Our share of CSA project and management costs
- Legal services to support policy development
- Corporate services activities, including disaster recovery facility standby charges and internal audit costs

We expect inflationary growth in professional service costs over the planning period.

Rent

We have leased office space to November 2011. Our annual rent is approximately $0.8 million until November 2006, and $1.0 million after that date. We also pay our share of building operating and maintenance costs. We expect only inflationary growth in the building operating and maintenance cost component of our rent over the planning period.

Depreciation and capital expenditures

Our assets are mostly leasehold improvements and information technology hardware and software. We depreciate them using the straight-line method over their useful lives. We estimate the useful lives of our assets to be:

- *Information technology* – three years
- *Leasehold improvements* – the shorter of the length of the remaining lease term and the length of the estimated useful life of each improvement
- *Office furniture and equipment* – ten years

We expect amortization to average $1.3 million per year over the planning period.

Planned capital spending relates primarily to information system development and maintenance. We expect to spend $0.4 million in fiscal 2005 and average $0.4 million per year in capital expenditures over the remainder of the planning period.

New Legislation project

On October 1, 2001, we started a project to streamline and simplify our securities legislation. After extensive consultation with industry and obtaining the required government approvals, we submitted our proposed legislation to the government on April 26, 2004. The legislature passed the new *Securities Act* on May 11, 2004, but the government has deferred implementation to allow market participants more time to prepare. Project costs, primarily the salaries and benefits costs of the team members, are included in operating expenses and total:

Fiscal 2002	0.7 million (actual)
Fiscal 2003	1.7 million (actual)
Fiscal 2004	2.1 million (actual)
Fiscal 2005	1.0 million (forecast)

Operating revenues

Our operations are funded from filing fees paid by market participants and fluctuate in proportion to market activity.

We are most dependent on fees related to prospectus and other distribution filings, annual registrations, and financial statement filings. After adjusting for temporary fee reductions, fee revenues increased by 4.3% in fiscal 2004. We expect fee revenues to rise about 8.0% in fiscal 2005 and then decline by 2.6% in fiscal 2006, primarily because of changes in filing deadlines and the positive impact of higher gross mutual fund sales on distribution fees. We expect revenues to increase modestly over the remainder of the planning period, whether through increases in market activity or filing fee increases.

Fee Revenue Growth

(000,000's)	2004 Actual	2005 Forecast	2006 Budget	2007 Projection	2008 Projection
Fee Revenue					
Temporary fee reductions	3.3	0.3	0.3	0.3	0.3
Revenue from fees (before temporary reductions)	24.9	26.9	26.2	26.9	27.6
Fee revenue growth rate (before temporary reductions)	4%	8%	-3%	3%	3%

In fiscal 1999 and fiscal 2000, we appropriated portions of our general surplus to the Fee Stabilization Reserve (FSR) to ensure that temporary reductions in revenue will not immediately impair our ability to operate, or require immediate

fee increases. The FSR balance was $11.8 million at the end of fiscal 2004 and we expect the no change at March 31, 2005. We will draw on the FSR as needed to avoid a negative general surplus over the planning period.

Sensitivity: 1% change = approx. $0.6 million over the fiscal 2006 - 2008 period.

Our revenues consist of fees from the five broad areas described below.

Prospectus and other distributions

The most significant fees paid by securities issuers when they file disclosure documents are described below.

Prospectus
A prospectus is a detailed document normally prepared whenever an issuer (typically, a mutual fund or company) plans to sell securities to the public. Issuers pay us a fee when they file a prospectus. When sales under the prospectus exceed $7.5 million, an additional fee, called a percentage of proceeds fee, may be payable. Prospectus fees account for about 30% of our revenue.

Annual information form
An annual information form (AIF) is a detailed document required annually from senior issuers (most commonly, issuers trading on the TSX Exchange). It must disclose all important facts about the issuer. AIF filing fees account for about 5% of our revenue.

Exempt distribution report
Generally, when securities are issued under exemptions from our registration and prospectus requirements, the issuer must file a report of the sale and the exemptions relied upon within 10 days, together with the filing fee. Exempt distribution report filing fees account for about 5% for our revenue.

We expect 15% ($0.5 million) higher percentage of proceeds fees in fiscal 2006. These fees, based on gross sales over a threshold during the effective period of a prospectus, are paid in arrears. Industry statistics show that gross mutual fund sales were 50% higher during the twelve-month period ended November 30, 2004 compared to the prior twelve-month period. We have estimated only a 15% increase in fiscal 2006 percentage of proceeds fees because much of the funds' increased sales will be under the fee threshold.

Excluding timing differences, we expect 3% growth in all prospectus and distribution filing fees over the remainder of the planning period.

Registrations

Individuals who wish to sell or advise on securities in BC must apply to us for registration and pay an annual fee to maintain their registration. Individual registration fees are most significant, accounting for about 30% of our revenue. Registration fees are paid to us in advance. We recognize only the portion of fees that relate to the registration period falling in the current period as revenue. We treat the balance as deferred revenue and recognize it as income in subsequent periods.

Registration revenues are not expected to grow in fiscal 2005. We also expect registration revenues will remain flat in fiscal 2006 because we believe the entry of new registrants will be offset by consolidating industry trends, such as on-line investing. Beyond fiscal 2006, we have forecast modest growth of 3% per year.

Financial filings

Paid by public companies when they file annual and quarterly financial statements. Annual financial statement filing fees are the most significant component of this revenue area, comprising about 13% of our revenue. Public (typically mutual funds and exchange-listed companies) issuers pay this fee to file their annual audited financial statements.

Historically, except for the effects of temporary fee reductions and filing cycle changes, financial filings revenue has not been volatile. Filing cycle changes are expected to increase financial filings revenue by 10% in fiscal 2005 and 8% in fiscal 2006 before falling 9% in fiscal 2007 when filing cycles again normalize. Apart from these timing impacts, we expect financial filings revenue to grow by 2% per year over the planning cycle.

Other applications and filings

Paid by market participants, primarily to request exemptions from *Securities Act* requirements.

These revenues have declined significantly over the past several years. We continue to reduce the need for exemption orders, in part by issuing blanket (i.e. an order that applies to all market participants) exemption orders when warranted. We expect exemption application revenue to decline by 20% in fiscal 2006, and then decline by 5% per year over the remainder of the planning period.

Enforcement sanctions

Amounts collected from administrative penalties and settlements for breaches of the *Securities Act*, and enforcement cost recoveries (see also discussion of Education Fund revenues below). Enforcement revenues are not considered part of our core operating revenues, because they are unpredictable. They depend on the nature and timing of enforcement actions completed during the year, and on our ability to collect assessed amounts. We recognize administrative penalties, settlements, and recoveries of enforcement costs as revenue only when we receive payment since the collection of these amounts is uncertain.

We budgeted a conservative amount for fiscal 2006 enforcement revenue by basing it on the five-year average after excluding unusually large receipts in any particular year. We have assumed no growth in enforcement revenue over the planning period.

Investment income

Our portfolio generates modest returns because we invest conservatively. Most of our funds are invested in investment pools managed by the British Columbia Investment Management Corporation (bcIMC), a BC government organization. About half of our funds are invested in bcIMC's ST2 fund, which invests in 15 month or shorter money market instruments. The other half is invested in bcIMC's Short Term Bond fund, which invests in Canadian bonds issued or guaranteed by Canada or a Canadian province and that mature within ten years.

We have assumed investment yields of between 3.3% and 5.0% over the forecast period, based on Treasury Board forecasts.

Education fund revenue and expenses

The Education fund is comprised of amounts collected from administrative penalties and settlements for breaches of the *Securities Act*, and enforcement cost recoveries. Monies received must be used only to educate market participants and the public about investing, financial matters and the operation or regulation of securities markets.

Education revenue

Revenue from designated settlements and administrative penalties is difficult to accurately predict because it depends on the nature and timing of enforcement actions completed during the year, and on our ability to collect assessed amounts. We have therefore used the long-term historical average to estimate this income.

Education expenses

Education fund disbursements are typically at the discretion of the Commission. We expect disbursements totalling $2.2 million and $1.2 million in fiscal 2005 and 2006, respectively. These expenses relate primarily to the development of a financial planning course module for grade 10 students, and to the development of industry training materials for our proposed new legislation. Otherwise, we have assumed that fund inflows will equal fund disbursements over the planning period.

The balance of the Education fund was $3.9 million at the end of fiscal 2004. We expect the fund balance will decline to, and then stabilize at, $1.8 million by the end of fiscal 2006.

Financial position

The following table summarizes our actual and expected financial position:

Summarized Balance Sheets

(000,000's)	2004 Actual	2005 Forecast	2006 Budget	2007 Projection	2008 Projection
Assets					
Current assets:					
Cash and short-term investments	3.0	4.7	5.6	6.7	7.9
Other current assets	0.4	0.4	0.2	0.3	0.3
	3.4	5.1	5.8	7.0	8.2
Designated investments	15.7	14.4	13.8	13.8	13.8
Capital assets	6.0	5.1	4.3	3.3	2.4
	25.1	24.6	23.9	24.1	24.4
Liabilities					
Current liabilities:					
Trade payables and accruals	1.4	1.3	1.2	1.2	1.2
Accrued remuneration costs	2.8	2.9	3.0	3.1	3.2
Deferred registration revenue	5.2	5.4	5.5	5.7	5.8
	9.4	9.6	9.7	10.0	10.2
Surpluses					
General	-	0.6	0.4	0.3	0.4
Fee stabilization reserve	11.8	11.8	12.0	12.0	12.0
Education reserve	3.9	2.6	1.8	1.8	1.8
	15.7	15.0	14.2	14.1	14.2
	25.1	24.6	23.9	24.1	24.4

Risks and opportunities

Filing fee changes

Lower securities market activity, together with planned temporary fee reductions, reduced fee revenue over the last several fiscal years.

Percentage of proceeds fee revenue, part of revenue from prospectus and other distribution filings, fell by 47% ($2.3 million) over the fiscal 2002 – 2004 periods. Some of the decline is because of filing fee changes that permanently reduced revenue from this source. However, industry-wide mutual fund[2] gross sales also fell during the March 31, 2001 to January 31, 2004 period. After corrections for prior period submissions are removed, percentage of proceeds fee revenue is expected to increase by 18% ($0.5 million) in fiscal 2005.

We have budgeted a 15% ($0.5 million) increase in percentage of proceeds distribution fees in fiscal 2006, and have forecast additional increases of 3% per year over the remainder of the planning period. We budgeted the fiscal 2006 increase because a review of mutual fund industry gross sales data shows that Canadian sales of non-money market funds have increased by 50% since the last time many funds reported to us.

If percentage of proceeds distribution fee revenue does not increase as expected, or declines, we will need to increase our filing fees or reduce our expenses in order to break even.

Securities regulatory reform

On September 30, 2004, several of Canada's provincial ministers responsible for securities regulation signed the *Provincial / Territorial Memorandum of Understanding Regarding Securities Regulation* (Passport MOU). That agreement proposes a single window of access to capital markets in participating provinces and territories, to be established by August 2005, and a review of the regulatory fees charged in the context of the passport system.

While both the Passport MOU and our proposed new legislation may change both what we do and how we fund our operations, we have forecast no impact on our revenues and expenses because we assume the changes will have no net impact on our bottom line.

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[2] Gross sales distribution fees are paid primarily by mutual funds.

Reliance on CDS Inc (CDS)

Most disclosure documents and applications we receive are filed electronically using systems operated on behalf of the CSA by CDS Inc:

- System for Electronic Document Analysis and Retrieval (SEDAR): an electronic system for securities market participants to file regulatory documents and pay fees
- National Registration Database (NRD): an electronic system for registrants (i.e. dealers, advisers, and their representatives) to register and pay fees
- System for Electronic Disclosure by Insiders (SEDI): an internet-based electronic system for insiders to report their trades

The CSA does not pay CDS to operate these systems. CDS recovers system costs by charging filers service fees.

Approximately 85% of our fee revenue is collected through SEDAR and NRD. Should CDS become unable or unwilling to continue to operate any of these systems, the CSA could have to contract with another party to undertake these tasks.